

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF GLENGARRY)	
UTILITIES, INC., D/B/A GLENGARRY)	
SEWER SYSTEM FOR A RATE)	
ADJUSTMENT PURSUANT TO THE)	CASE NO. 9103
ALTERNATIVE RATE FILING)	
PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On July 13, 1984, Glengarry Utilities, Inc., d/b/a Glengarry Sewage Treatment Plant ("Glengarry") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method in order to minimize the necessity for formal hearings, to reduce the filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in a lower rate to the ratepayers.

Glengarry requested to increase its rate to produce additional annual revenues of \$26,011 from its 333 residential and 9 commercial customers located in the Glengarry Subdivision, Jefferson County, Kentucky. In this Order, the Commission has allowed additional revenues of \$9,962.

The Attorney General ("AG") was the sole intervenor in this matter. All information requested by the AG and this Commission has been submitted.

TEST PERIOD

To determine the reasonableness of the proposed rate, Glengarry has proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in this case.

REVENUES AND EXPENSES

Glengarry showed a net loss for the test period of \$19,356. Glengarry proposed several pro forma adjustments to the test period revenues and expenses in order to reflect more current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Sludge Hauling

Glengarry's pro forma test year expenses included \$3,350 for sludge hauling which it proposed to increase to \$4,430. Using the loads of sludge hauled during the test period (31) and the current rate being charged for sludge hauling (\$130 per load),¹ the Commission has determined Glengarry's adjusted test period expense for this service to be \$4,030 and has, therefore, reduced Glengarry's pro forma expense by \$400.

¹ Response to Commission information request filed August 15, 1984.

Purchased Power

During the test period Glengarry incurred purchased electric power expenses of \$10,247 which it proposed to increase to \$11,016. Using the actual kilowatts consumed for the latest 12-month period available and the current rates being charged by its supplier, the Louisville Gas and Electric Company,² the Commission has determined the adjusted level of this expense to be \$10,726 and has, therefore, reduced Glengarry's pro forma expense by \$290.

Routine Maintenance

Glengarry reported routine maintenance service expense of \$7,200 and proposed no adjustment to this account. Since the contract is between mutually owned companies, Glengarry and Andriot-Davidson's Service Company, Inc., ("Andriot-Davidson"), the transaction is, by definition, at less than arms length. Therefore, the burden of proof is on Glengarry to demonstrate that the monthly charge for routine maintenance service is fair, just and reasonable, and to justify the basis for increasing the level of this fee from the amount found reasonable in Case No. 8690, The Application of Glengarry Utilities, Inc., Glengarry Sewage Treatment Plant, for an Adjustment of Rates Pursuant to the Alternative Procedure for Small Utilities. Since Glengarry did not demonstrate the necessity for increasing this expense above

² Ibid.

the level previously found to be fair, just and reasonable by this Commission in Case No. 8690 this expense has been held to that level, a reduction of \$600.

Maintenance Expense

Glengarry's test period operations included \$9,398 for maintenance of the treatment and disposal plant. An analysis of the individual invoices for the test period indicated that Glengarry expensed \$6,635 for repairs which were nonrecurring in nature, benefiting more than one economic period and should have been capitalized. Therefore, the Commission has reduced the test period maintenance expense by \$6,635³ to \$2,763.

Depreciation and Amortization Expense

Glengarry had test period depreciation expense of \$9,718 which it proposed to increase by \$1,563 in order to reflect depreciation on anticipated future equipment purchases. Of these anticipated purchases only a new Sutorbelt Model No. 7MF Blower had actually been acquired at a cost of \$4,077.⁴ Therefore the Commission will allow only the additional depreciation attributable to the new blower.

Further, the Commission, in its disallowance of capital items of \$6,635 included in the cost of maintenance of treatment and disposal plant, has allowed a pro forma amortization

³ Invoice filed in response to AG information request filed September 17, 1984.

⁴ Response to Commission request filed August 15, 1984.

adjustment of \$2,212 based on a 3-year service life of the capitalized repairs. These adjustments result in an adjusted depreciation and amortization expense of \$12,338. Therefore the Commission has increased Glengarry's pro forma expense by \$1,057.

Miscellaneous General Expenses

During the test period Glengarry incurred finance charges of \$1,428 from Andriot-Davidson. The finance charge is reported in Account No. 930 - Miscellaneous General Expenses. The proper classification for this expense is Account No. 430 - Interest on Debt to Associated Companies. The Commission's findings are further discussed in the following section relating to other interest expense.

Interest Expense

Glengarry incurred interest on short term debt during the test period of \$5,465, composed of the Andriot-Davidson interest expense of \$1,428, \$2,428 for interest to associated companies and \$1,609 in other interest expense. Glengarry stated that this interest was applicable to short-term debt necessitated by current operating losses. The Commission is of the opinion that the overall deterioration in Glengarry's financial position is not a current phenomenon. In addressing a similar request in Glengarry's previous rate case, Case No. 8690, the Commission stated:

The purpose of these notes was to obtain funds to pay current operating expenses. The Commission's records reflect that Glengarry last requested rate relief in 1980. In 1980, the year subsequent to the Commission's decision in that case, Glengarry's financial position deteriorated to the point that it could no longer remain current on payments to

suppliers. Glengarry's failure to request rate relief when this situation began to develop is a material reason the notes payable have reached the current level. The burden of obtaining sufficient revenues to pay operating costs rests with the management of Glengarry. The failure of Glengarry to seek sufficient revenues to cover its operating costs in prior periods does not justify the recovery of those costs from the present ratepayers. To allow Glengarry to recover these costs would constitute retroactive rate-making.⁵

The Commission is still of the opinion that Glengarry's current financial position is the direct result of Glengarry's previous inaction. Therefore the Commission will again disallow these interest expenses for rate-making purposes on the basis that it constitutes retroactive rate-making.

Therefore, Glengarry's adjusted operations at the end of the test period are as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 42,087	\$ 8,539	\$ 50,626
Operating Expenses	51,802	<3,784>	48,018
Operating Income (Loss)	\$ <9,715>	\$ 12,323	\$ 2,608
Interest Expense	9,641	<5,465>	4,176
Net Income (Loss)	<u>\$<19,356></u>	<u>\$ 17,788</u>	<u>\$ <1,568></u>

REVENUE REQUIREMENTS

The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be a fair, just and reasonable method to both the utility and its customers. The Commission is of the opinion that a ratio of 88

⁵ Commission's final Order in Case No. 8690, page 7.

percent is a fair, just and reasonable operating ratio in that it will enable Glengarry to pay its operating expenses and provide an adequate debt service coverage with a reasonable return to the plant's owner. Therefore, the Commission finds that Glengarry is entitled to adjust its rates to produce total revenues of \$60,588 which includes federal, state and Jefferson County income taxes of \$1,846 and interest expense of \$4,176. This results in an annual increase in revenue to Glengarry of \$9,962.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates proposed by Glengarry would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A should produce gross annual revenues of approximately \$60,588 from 342 customers located in Glengarry Subdivision, Jefferson County, Kentucky, and is the fair, just and reasonable rate for Glengarry to charge for sewer service on and after the date of this Order.

IT IS THEREFORE ORDERED that the rate proposed by Glengarry be and it hereby is denied.

IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate to be charged by Glengarry for sewage service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Glengarry shall file with this Commission its tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 28th day of January, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Henne
Chairman

Robert W. Smith
Vice Chairman

Samuel A. Smith
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9103 DATED 1/28/85

The following rates are prescribed for the customers in the area served by Glengarry Utilities, Inc., d/b/a Glengarry Sewer System located in Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

RATES: Monthly

Single Family Residential

\$14.10

Commercial

120% of Water Bill